

# Industry Sector Analysis

## JAPAN

### Beer

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### SUMMARY

Japan represents an enormous, but quite challenging, market for American beer producers. Annual sales of beer in Japan total roughly \$34 billion. Outside of a slight surge in volume in 1996, the beer market in Japan has been shrinking since 1994. This downward sales trend has been seen both in domestic and imported beer sales alike, but has been particularly pronounced with regard to American beer imports. A key factor driving the market down has been Japan's poor economic climate for most of the previous decade. An anemic economy, coupled with very expensive retail prices for beer in Japan (Japan has the highest retail prices for beer among all post-industrialized nations due mainly to heavy taxation and Japanese beer distribution dynamics), have depressed the beer market in Japan.

Despite a soft market in recent years, beer remains the drink of choice among consumers of alcoholic beverages in Japan, even though retail prices are greatly inflated by taxes, high production costs, and distribution mark-ups. The high domestic

retail prices for beer can work to the American supplier's favor however, for production costs for U.S. firms are much lower than those in Japan, and those cost advantages can be passed on to Japanese consumers in the form of lower retail prices.

By rationalizing distribution channels and enhancing consumer awareness of imported products, American suppliers may be in a position to capitalize on renewed demand in the Japanese beer market as economic conditions start to improve.

## 1. MARKET OVERVIEW

According to a survey conducted by the Japan Beer Brewers' Association, the average Japanese household spends 52,454 yen (US\$ 490.00) per year on alcoholic beverages. Of which, 29,291 yen (US\$ 273.00) per year is spent on beer. In other words, 55% of total alcoholic beverage spending in Japan, or roughly \$34 billion annually, goes to the purchase of beer.

There are five main beer brewers in Japan brewing about 99 percent of total beer production. Among the leading five Japanese beers firms, their share of the market as of mid-2000 (as reported by the Nikkei Industrial Daily) is as follows: Kirin (39.1%), Asahi (35.6%), Sapporo (14.4%), Suntory (10.1%), and Orion (0.8%). According to the Japan Beer Brewers' Association, during 1999 Japan's five leading beer producers shipped 5.76 million-kiloliters (kl) to the domestic market and 30,000 kl of beer to overseas markets. This represents a significant decline in beer production in Japan since 1994, as illustrated by the table below.

Beer Shipment in Japan (by the five giants)			Unit: KL
Year	Domestic Shipment	Overseas Shipment	Total Shipment
1994	7,135,020	15,738	7,150,758
1995	6,723,483	17,141	6,740,624
1996	6,790,299	19,117	6,809,416
1997	6,660,702	25,670	6,686,372
1998	6,154,493	33,452	6,187,945
1999	5,758,771	29,581	5,788,351

During 1999, total beer imports into Japan were 52,438 kl, about 0.9 % of domestic shipments. The amount of beer imported into Japan is considered low by international standards with most other industrialized nations importing about 7 - 8% of their total beer consumption. In addition to the five leading producers, there are another 130 microbreweries in Japan, whose combined production represents about 1% of the domestic market.

Industry experts predict that once Japan's economy recovers, beer consumption should increase. While Japan's annual beer production is 5th in the world, per capita annual consumption, which is 57 liters, ranks only 24th in the world (1997). The average Japanese citizen drinks 68% as much beer as his or her American counterpart.

## 2. MARKET TRENDS

Demand and price trends:

In comparison with the peak year of 1994, the current size of Japan's beer market has declined by 20%. This has resulted in a reduction in retail beer prices, although they remain high by international standards. In Japan, the manufacturer's suggested retail price on a 350ml can of beer is 225 yen. However, most large-scale retailers actually market beer at about 180 yen per can and discount stores sell them at even cheaper prices. Of this 180 yen, 77.7 yen represents Japanese Government liquor tax. This leaves only about 100 yen per can for dealers to cover all distribution costs including wholesale margins, retail margins, warehouse fees, interest charges, and other distribution costs.

The combination of poor economic conditions, high retail prices for beer, and a continued taste for beer by Japanese consumers has brought about a recent boom in the consumption of a lower-priced, low-malt beer called "*happoshu*," which was first introduced by a domestic producer under the brand name "Suntory Hops" in 1994. *Happoshu* is defined as an alcoholic beverage that has malt weighing less than two thirds of the other ingredients, excluding water. If the malt weight is

more than two thirds of the other ingredients, the product in question is considered beer. Because low-malt beers attract reduced tax rates, they generally cost about two-thirds the price of regular beer.

While annual imports of beer (HS 2203.00-000) into Japan totaled 52,438 kl in 1999, imports of *happoshu* (HS 2206.00-225) were 33,094 kl or 63% of beer imports. Just a year before, in 1998, beer imports were 81,177 kl, while *happoshu* imports amounted to 9,999 kl, or only 24% of the beer imports. (*Happoshu* was not classified under an independent tariff classification until 1998 so there are no sales figures available prior to 1998). So, while beer imports are declining, *happoshu* imports are growing rapidly. In addition, since Japanese consumers are shifting from expensive beer to cheaper *happoshu*, many Japanese beer suppliers have stepped-up their *happoshu* production and promotion. For example, Kirin started to manufacture *happoshu* in 1998.

In Japan, the volume of beer consumption at commercial locations (such as restaurants) is only half that of the consumption at non-commercial venues. Partially as a result of Japan's economic down-turn, consumers seem to have developed a stronger tendency to consume beer at home rather than at locations such restaurants.

Distribution trends:

Reflecting the more challenging market situation, large-scale rationalization is taking place in Japan's beer distribution channels. This has resulted, among other things, in declining retail prices. Declining consumption and prices have resulted in a significant change in how beer is sold via seven primary retail outlets, as outlined below.

Year	2000	1993	1983
1) Liquor store	20%	55%	76%
2) Large scale Retail Stores	20	2	1
3) Restaurant Liquor Suppliers	10	15	18
4) Department Stores	2	2	1
5) Convenience Stores	23	12	4
6) Discount Stores	20	12	1
7) Others	5	2	
Total:	100%	100%	101%

As these figures indicate, Japanese consumers are shifting to less expensive retail outlets. This has resulted in large-scale retail stores and discount stores increasing their market shares, while liquor stores have experienced a precipitous decline in their share of the retail beer market. Convenience stores are also expanding their sales by offering beers at competitive prices. Given these market trends, U.S. suppliers should consider approaching large-scale retailers, discount stores, and convenience stores as possible business partners. While some large-scale retailers, discount stores, and convenience stores are capable of purchasing directly from overseas suppliers, many others are still using importers, which are either Japanese beer manufacturers or import trading companies.

### 3. IMPORT MARKET

In 1994, total beer imports from the U.S. were 212,662 kl. By 1999, total beer imports from the U.S. had fallen to 25,975 kl, only 12% of 1994 levels. Unlike European beer imports, purchases of American beer in Japan seem to have been strongly influenced by the Japanese economy. This may suggest that an economic recovery in Japan would be particularly beneficial to American beer suppliers. Without a more vibrant Japanese economy, it is unclear how a return to 1994 levels of U.S. import sales would be achieved.

Retail prices for imported beer have traditionally varied widely. For a 330ml can of beer, some are priced as high as 1,000 yen, but others are as cheap as 150 yen. Beers from such countries as France, Belgium, and Germany have typically been on the high-end of the retail price spectrum and are generally not competing with American beers in the Japanese market. Consumers of European beers in Japan are generally in a separate category from those who are consumers of American beers. European beers are mainly sold at beer pubs or beer shops specializing in imported beers. Approximately 50% of the total beer import market comes from American beer imports. In 1998, the first year such data was collected, 87% of all *happoshu* imports were from American. The American market share of *happoshu* imports declined however in 1999 to 54% of all *happoshu* imports.

#### Prevailing Beer Market Conditions in Japan Unit: KL

Year	1999	1998	1997
Domestic shipments	5,758,771	6,154,493	6,660,702
Export	29,581	33,452	25,670
Total shipments	5,788,351	6,187,945	6,686,372
Imports	52,439	81,177	132,235
Imports from U.S.	25,975	48,494	87,132

Imports of <i>happoshu</i>	33,094	19,999	n/a
<i>happoshu</i> from U.S.	17,689	17,323	n/a

#### 4. TAXES

Beer is subject to an import duty of 3.8% of CIF value and *happoshu* is subject to an import duty of the same 3.8% of CIF or 6.40 yen/liter, whichever is cheaper. These import duties however, will be abolished from 2002. In addition to the import duty, beer is subject to a liquor tax of 222,000 yen per kiloliter and *happoshu* is subject to a liquor tax which ranges from 222,000 yen to 105,000 yen per kiloliter depending on the malt content. Japan's national consumption tax of 5% is a third tax levied on beer.

The liquor tax of 222,000 yen per kiloliter is equivalent to about 77.7 yen per 350ml can. *Happoshu's* liquor tax differs depending on the malt content. For *happoshu*, if the malt content is 25% or less of the weight of total ingredients, excluding water weight, the tax is 105 yen per liter; if the malt content is between 25% to 50% of the weight of total ingredients, it will be taxed at 152.7 yen per liter; and if the malt content is between 50% to 66.6%, it is taxed at 222 yen per liter.

Listed below is an international comparison of beer retail prices and their structure.

	Japan	U.S.	France	Germany	England
Std. retail prices	337 yen	150 yen	104 yen	123 yen	238 yen
Liquor tax - - %	41.7%	10.8 %	7.1%	5.0 %	20.2 %
Liquor tax - - yen	140.5 yen	16.2 yen	7.4 yen	6.0 yen	48.1 yen
Consumer tax - - %	4.8 %	7.4 %	16.8 %	16.0%	17.5 %
Consumer tax - - yen	16.1 yen	11.1 yen	17.4 yen	19.7 yen	41.7 yen
Total tax - - %	46.5 %	18.2 %	23.9 %	21.0 %	37.7 %
Total tax - - yen	156.6 yen	27.3 yen	24.8 yen	25.7 yen	89.8 yen

Study conducted by Beer Brewers Association during June- July, 1999)

Unit: 633 ml

Exchange rates: The Customs clearance rate used on July 1, 1999

Dollar = 122; Franc = 19.29 ; Mark = 64.69; Pound = 194.66

Consumer tax - - Japan = consumer tax; U.S. = Retail sales price tax; Europe; Added value tax

In 1999, the Japanese Tax Agency collected a total of 47 trillion yen in taxes. Of the 47 trillion yen, the share from the Liquor Tax was 1.98 trillion-yen (\$16 billion) or 4.2% of the total. Out of the 1.98 trillion yen collected in liquor taxes, 1.4 trillion yen came from taxes on beer or about 70% of all liquor taxes collected.

#### 5. COMPETITION

American beers have one significant advantage over domestic products, cost of production. Due to the extremely high cost of electricity in Japan, production costs for aluminum tins in Japan are quite high in comparison to the United States. Other inputs such as barley, hops, and other raw materials, as well as labor, are all cheaper in the United States as well. In addition, and quite amazingly, while the freight charges across the ocean from San Francisco to Tokyo is only 3 yen per tin, the freight costs from Minato-ku Tokyo to Shinjuku-ku Tokyo, a distance of less than five miles, is 1.8 yen per tin. Thus, a key competitive strength for American beer is pricing.

#### 6. END USERS

Different from American consumers, Japanese consumers are generally more concerned with packaging. Beer cans manufactured in America typically are given only one coating, but in Japan, two coatings are normally expected by Japanese end users. Even a slight unevenness of color or other minor blemish can be a reason for products to be returned to the manufacturer by retailers. With regard to production dating, while the current trend is to indicate only the expiration date, some distributors may also require labeling the date of production. To avoid the case where distributors return products prematurely before their expiration date, individual distributor labeling requirements should be investigated before entering the Japanese market. In addition, Japanese end users very rarely buy dented cans. Care should be given from manufacture through the distribution chain to avoid denting.

## **7. SALES PROSPECTS**

There are two important factors for American beer suppliers to consider when selling in the Japanese market: Japanese consumers' tastes and product pricing. In the past, Japanese consumers preferred heat-treated beer with alcohol contents of 4.5%, but currently there has been a shift to draft beers. Consumers are currently looking for more variety as well. Dry beer, low-calorie beer, 100% malt beer, dark beer, sour malt, etc. As has been mentioned previously, low malt beer has become increasingly popular since its introduction into Japan in 1994, accounting for one-fifth of all beer sold in Japan by mid-2000.

There are about 150 microbreweries in Japan, with a number of brewers enjoying considerable success in the microbrewery niche market. For example, Echigo Beer sells more than 10 different kinds of beer. Echigo's beers include: top fermentation beers (Japanese beers are usually bottom fermentation) like pale ales, weizens, and stouts, with approximately 5% alcohol; beer brewed according to a 400-year-old recipe, having an alcohol content of approximately 11%; Belgian type white beer of approximately 9% alcohol; and beer made with yeast from Japanese saka, containing approximately 6% alcohol. Given the strength of the American micro-brewery industry, suppliers of unique and specialty products may wish to explore this portion of Japan's market.

Even though total beer imports into Japan are declining, beers with unique features are actually expanding their sales in Japan. A common feature for such best sellers is that they are different from domestic beer in terms of ingredients, brewing technique, and containers. Most of the best sellers from overseas provide beers with large varieties in small volumes.

With regard to beer packaging, canned beer accounts for approximately half of the Japanese market. In the canned beer category, the best seller is the 350ml type, followed by the 500ml size. The main reason for canned beers' popularity is the presence of large numbers of beer vending machines in Japan. However, due to periodic complaints about minors (those aged younger than 20) accessing beer via unattended vending machines, in May 2000, the Japan Liquor Retailer's Association placed a self-restriction on the period of time when vending machines outside of shops could be in operation. Recently, however, machines with functions for verifying the age of users via ID cards have become available.

Bottled beer accounts for about one-third of the market. Within the bottled beer category, the best seller is the 633ml type followed by the smaller 500ml size. Currently, bottled beer accounts for 70-80% of the imported beer market. The most popular sizes of bottles among imported beers are 330ml and 350ml. Kegs cannot be sold to the public directly and are only available to commercial buyers.

## **8. MARKET ACCESS**

Given traditional Japanese business practices and long-established distribution arrangements within the beer sector, American firms may encounter difficulty in finding large-scale retailers, discount chains, and/or convenience store chains interested in doing business with them. Given recent market dynamics and declining beer sales, careful market analysis should be undertaken in advance of any firm's efforts to establish a presence in the Japanese market. Due to language and other challenges, the easiest starting point for American suppliers in Japan might be specialized beer importers, like those listed at the end of this report in the "Key Contact" section. Especially for small American suppliers, identifying a Japanese partner or importer may be an important initial step to entering the Japanese market.

As has previously been indicated, American beer firms have an important advantage, price competitiveness. For large-volume U.S. beer producers especially, this price differential may be critical to developing a profitable presence in Japan. Traditionally, selling large volumes of imported beer in Japan has required a good Japanese partner, combined with

extensive advertising. Tie-ups with Japanese beer manufacturers are tricky, however. U.S. firms, particularly those committed to marketing strategy based on low price, should verify that their Japanese partner use rational distribution channels not ending at small liquor store retailers, but rather utilizing large-scale retailers, discount chains, and convenience store chains.

Ideally, a Japanese partner should be large enough to be able to handle significant volume, willing to hold inventories, possess rational distribution channels, and be willing to share advertisement costs. One option for U.S. suppliers might be able to look at large-scale retailers, discount chains, or convenience store chains as potential business partners. Until 1983, Japan's large-scale retailers and discount stores used to handle only 2% of all beers sold, currently they handle as much as 40% of the retail sales market. Large-scale retailers and discount stores have wider sales floor space and may be more accepting of new products. However, due to the close relationships which exist between distributors and retailers in Japan (which is considered to be very important in Japanese business practices) once a supplier has secured his sales space in a retail store, it is not easy to replace that suppliers products with new products from new competitors.

As far as advertisement is concerned, almost all Japanese ads for beer are composed of "Image ads." American suppliers may also find it beneficial to use advertisements which explain why American beers are so reasonably priced and tasty.

## 9. KEY CONTACTS

Ministry of Finance  
3-1-1 Kasumigaseki, Chiyoda-ku, Tokyo 100  
Tel: 03-3581-4111  
Website: <http://www.mof.go.jp/>

Japan Import Beer Association  
1-8-10 Kamimeguro, Meguro-ku, Tokyo 153-0051  
Tel: 03-5489-8888 Fax: 03-5489-8889

Japan Beer Corp.  
1-8-10 Kamimeguro, Meguro-ku, Tokyo 153-0051  
Tel: 03-5489-8888 Fax: 03-5489-8889

Meiji-ya Co., Ltd.  
2-2-8 Kyobashi, Chuo-ku, Tokyo 104-0031  
Tel: 03-3271-1111 Fax: 03-3274-4890

Hiroshima Co., Ltd.  
2-9-1 Befu, Jonan-ku, Fukuoka-shi 814-0104  
Tel: 092-821-6338 Fax: 092-821-3336

Ikemitsu Enterprise, Co., Ltd.  
Toko Bldg., 1-5 Yotsuya, Shinjuku-ku, Tokyo 160-8505  
Tel: 03-3355-0506 Fax: 03-3353-7550

Konishi Brewing Co., Ltd.  
3-5-8 Chuo, Itami-shi, Hyogo-ken 664-0851  
Tel: 0727-75-0524  
Website: <http://www.konishi.co.jp/>

World Beers, Co. (Mail order company)  
2-6-3 Kiren, Hirano-ku, Osaka 547-0027  
Tel: 06-6709-2370 Fax: 06-6707-5290  
Website: <http://www.bekkoame.ne.jp/~sch0144/>

Shinyland Co., SL World (Mail order company)  
1-15-12 Ainokawa, Ichikawa-shi, Chiba-ken 272-0143  
Fax: 047-390-1902  
Mail: [shinyland@st.alpha-web.or.jp](mailto:shinyland@st.alpha-web.or.jp)  
Website: <http://www.alpha-web.or.jp/SLworld/>

## 10. UPCOMING TRADE SHOWS

Show name:	FOODEX JAPAN
Date:	March, 2001
Place:	Makuhari, Chiba
Sponsor:	Japan Management Association
Number of booth:	2,500
Number of visitors:	87,000



Show name: HOTERES & FOOD EX KANSAI  
Date: October, 2001  
Place: INTEX, OSAKA  
Sponsor: Japan Management Association  
Number of booths: 800  
Number of visitors: 48,000

Show name: FOOD TECH  
Date: September, 2002  
Place: INTEX, OSAKA  
Sponsor: Osaka International Show Committee  
Number of booths: 1,000  
Number of visitors: 90,000

ISA Customer Satisfaction Survey

U.S. Department of Commerce  
\* International Trade Administration\*  
The Commercial Service

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The U.S. Department of Commerce would appreciate input from U.S. businesses that have used this ISA report in conducting export market research. Please take a few moments to complete the attached survey and fax it to 202/482-0973, mail it to QAS, Rm. 2002, U.S. Department of Commerce, Washington, D.C. 20230, or Email: Internet[Opfer@doc.gov].

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\* \* \* About Our Service \* \* \*

1. Country covered by report: \_\_\_\_\_  
Commerce domestic office that assisted you (if applicable): \_\_\_\_\_

2. How did you find out about the ISA service?

- ☐ Direct mail  
☐ Recommended by another firm  
☐ Recommended by Commerce staff  
☐ Trade press  
☐ State/private newsletter  
☐ Department of Commerce newsletter  
☐ Other (specify): \_\_\_\_\_

3. Please indicate the extent to which your objectives were satisfied:

- 1-Very satisfied 2-Satisfied  
3-Neither satisfied nor dissatisfied  
4-Dissatisfied 5-Very dissatisfied  
6-Not applicable

- ☐ Overall objectives  
☐ Accuracy of information  
☐ Completeness of information

- ☐ Clarity of information
- ☐ Relevance of information
- ☐ Delivery when promised
- ☐ Follow-up by Commerce representative

4. In your opinion, did using the ISA service facilitate any of the following?

- ☐ Decided to enter or increase presence in market
- ☐ Developed an export marketing plan
- ☐ Added to knowledge of country/industry
- ☐ Corroborated market data from other sources
- ☐ Decided to bypass or reduce presence in market
- ☐ Other (specify): \_\_\_\_\_

5. How likely would you be to use the ISA service again?

- ☐ Definitely would
- ☐ Probably would
- ☐ Unsure
- ☐ Probably would not
- ☐ Definitely would not

6. Comments:

\_\_\_\_\_

\* \* \* About Your Firm \* \* \*

1. Number of employees: ☐ 1-99 ☐ 100-249 ☐ 250-499  
☐ 500-999 ☐ 1,000+

2. Location (abbreviation of your state only): \_\_\_\_\_

3. Business activity (check one):

- ☐ Manufacturing
- ☐ Service
- ☐ Agent, broker, manufacturer's representative
- ☐ Export management or trading company
- ☐ Other (specify): \_\_\_\_\_

4. Export shipments over the past 12 months:

- ☐ 0-1 ☐ 2-12 ☐ 13-50 ☐ 51-99 ☐ 100+

May we call you about your experience with the ISA service?

Company name: \_\_\_\_\_

Contact name: \_\_\_\_\_

Phone: \_\_\_\_\_

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Thank you--we value your input!

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